

have exceeded CBO estimates by about \$100 million, averaging \$3.4 billion per month. The Administration's estimate for 1982, \$41.3 billion, implies average monthly outlays of \$3.4 billion, or no growth between now and the end of 1982. Its estimate for 1983, \$55.1 billion, implies average monthly outlays of \$4.6 billion, 33.4 percent higher than in 1982. CBO assumes that procurement outlays will grow gradually following the sharp increases in appropriations in 1980 and 1981. Consequently, CBO believes that the Administration's estimates for 1982 are too low; the implicit growth rate is too irregular to be consistent with historical data and the implementation of the approved procurement program.

Actual procurement obligations for the 12-month period ending in November 1981 averaged \$4.0 billion per month. As a result, procurement outlays should rise to about \$4 billion per month at the end of 1982. This would produce a 1982 average of \$3.7 billion per month, or \$0.3 billion higher than estimated by the Administration. The Administration's obligation plans call for \$4.8 billion per month in 1982 growing to \$6.7 billion per month in 1983. CBO estimates that 1983 outlays will grow to average about \$4.7 billion per month, only slightly higher than the Administration estimates. Consequently, the estimating difference for 1983 procurement outlays is relatively small.

The CBO outlay estimates for 1984 and 1985 assume that the mix of spending programs for procurement activities will be consistent with the programs for 1982 and 1983, as shown in the following table. The Administration's goal of a 600-ship Navy does not necessarily mean that the slow-spending shipbuilding account will receive a significantly increasing share of future procurement budget authority; other expensive programs will be competing with shipbuilding for budget authority, including: the MX missile, B-1 bomber, improved strategic command and control, tracked combat vehicles (for example, M-1 tanks and Fighting Vehicles), and tactical aircraft for an additional four Air Force air wings, an additional two carrier air wings, and continued modernization of current forces.

If the Administration continues a relatively higher priority for spare parts and support equipment programs than was the case in recent years, overall spending rates will exceed the historical average. Outlays for spare parts programs will not be faster than for major end items when the spare parts programs are only big enough to fund initial provisioning. However, when the programs expand to make up for past shortfalls in replenishment spares, as in the 1982 budget, one can expect these spare parts programs to be executed well ahead of the major end-item program. The CBO estimates do not anticipate an acceleration in outlay rates for this shift in program composition; to that extent, CBO's projections may underestimate procurement outlays.

CBO Outlay Estimates For Defense Procurement Based on the President's
February Budget Authority Request

	1982	1983	1984	1985	1986	1987
<u>Billions of Dollars</u>						
Budget Authority (BA)	65.7	89.5	101.9	125.5	142.8	155.1
Outlays from						
1981 and prior BA	35.9	21.5	8.3	4.1	2.3	0.3
1982 BA	8.4	24.6	19.7	6.7	3.3	1.7
1983 BA	0	10.5	32.1	26.2	9.4	5.3
1984 BA	0	0	12.5	38.3	30.5	10.0
1985 BA	0	0	0	15.7	48.0	37.9
1986 BA	0	0	0	0	17.8	54.6
1987 BA	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19.1</u>
Total Outlays <u>a/</u>	44.3	56.5	72.6	91.0	111.3	129.0
<hr/>						
<u>Percent</u>						
Implicit Outlay Rates from New BA for						
1982	12.9	37.8	30.0	10.0	4.9	2.4
1983		11.7	35.9	29.3	10.5	5.9
1984			12.3	37.6	29.9	9.8
1985				12.5	38.2	30.2
1986					12.5	38.3
1987						12.3

a/ Details may not add to totals because of rounding.

All Other, Net. CBO estimates lower outlays than the Administration for most remaining categories of defense spending. The CBO estimate for military retired pay shows less growth in the annuitant population, consistent with past CBO estimates. The Administration has lowered its estimates of retired pay from levels projected last year to come closer to CBO's projections. The Administration's outlay estimate for the 1982 pay raise appears to be based on a combined outlay rate for military personnel and O&M to include slower spending purchases; CBO uses a higher rate, one pertaining to pay only, causing its estimate to be about \$230 million higher in 1982 and lower by the same amount in 1983. The remaining differences arise from different analytical interpretations of historical spending data. The CBO reestimates for these other national defense programs are summarized in the following table.

CBO Technical Reestimates for Other Defense Programs (By fiscal year, in millions of dollars)

	1982	1983	1984	1985
Military Personnel	-18	-49	-75	-125
Retired Pay	---	-142	-249	-290
RDT&E	68	-330	-76	223
Military Construction	-162	-461	-232	-472
Family Housing	-172	47	---	---
Pay Raises	230	-230	---	---
Other	-46	45	---	---
Total	-100	-1,120	-632	-664

FUNCTION 150: INTERNATIONAL AFFAIRS

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	11,074	11,968	12,323	12,990
Preliminary CBO Reestimates				
Different economic assumptions				
Export-Import Bank	15	8	16	27
Exchange Stabilization Fund	-22	-43	-70	-41
Technical reestimates				
Export-Import Bank	-17	-221	249	-60
Exchange Stabilization Fund	135	179	172	174
Foreign military sales credit	-5	88	-51	-87
Public Law 480 food aid	-138	-14	---	---
Other	61	---	---	---
Total Reestimates	29	-3	316	13
President's Budget Reestimated	11,103	11,966	12,639	13,003

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

Estimated outlays by the Export-Import Bank and the Exchange Stabilization Fund are sensitive to interest-rate assumptions. Higher interest rates increase the cost of the Export-Import Bank's borrowing to finance its loans, but also result in greater interest income for the Exchange Stabilization Fund on its holdings of U.S. securities. The net effect of CBO's higher interest-rate assumptions, therefore, is quite small for these two programs.

Technical Reestimates

Export-Import Bank. The Bank has restricted new loans on aircraft to newer-generation commercial jets. The 1982 loan commitments may include a large nuclear power project. Payments made on these contracts will be lower than the average historical disbursement pattern for Bank loans. The effect of this change in program mix will be to lower outlays in 1983 from the level estimated in the budget, but to raise outlays in 1984 as disbursements slip from one year into the next.

Exchange Stabilization Fund. The Secretary of the Treasury is authorized to use the resources of the Exchange Stabilization Fund and foreign exchange and other instruments of credit and securities in matters regarding orderly exchange management. Funds not being used in exchange transactions are invested in interest-bearing U.S. securities. Estimated negative outlays are interest earnings on those U.S. securities.

The Administration's estimate is based on an opening balance of \$3.1 billion. In November, \$1.5 billion of the securities were used to repay the Treasury for advances to the Fund on drawings from the International Monetary Fund, thereby lowering the principal of securities held and the estimated interest income. The Administration's February budget estimates for 1982-1985 do not reflect the lower balance of securities held by the fund. As a result, the February budget overestimates interest income by the fund during this period.

Foreign Military Sales Credit. The President is requesting an expanded direct credit sales program to assist friendly countries with the purchase of defense articles and services. The direct credits may be tied to particular procurement cases or provided as cash-flow financing of all sales cases for a country. Funds provided as cash-flow financing are fully disbursed in the fiscal year provided, whereas credits tied to new sales cases take up to five years to be spent.

Over one-half of the proposed direct credits for 1983-1985 are expected to be used for cash-flow financing. If this is done, 1983 outlays are underestimated in the February budget and overestimated for 1984 and 1985. The CBO reestimate assumes that there will be \$900 million in cash-flow financing provided in each of these three years.

Public Law 480 Food Aid. The February budget estimate for 1982 assumes full disbursement of all new funds appropriated for this fiscal year plus all of the unspent balances carried over from the previous year. Historically, there has been a lag between the obligation of funds for this program and their payment, which results in obligated but unspent balances at the end of each year on the order of \$140 million. The Administration has not provided any rationale to suggest that this historical pattern will not continue in 1982. Accordingly, CBO believes that the Administration has overestimated 1982 outlays by \$138 million.

Other. A number of minor estimating differences for other programs in this function for 1982 result from the use of different spending rate assumptions. The CBO reestimate for these programs represents the difference between its previous scorekeeping tabulations and the Administration's latest estimates.

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	6,942	7,633	7,779	7,379
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
General science	-34	---	---	---
National Science Foundation	-8	---	---	---
NASA space flight	54	---	---	---
NASA space science	38	---	---	---
Other	12	---	---	---
Total Reestimates	62	---	---	---
President's Budget Reestimated	7,004	7,633	7,779	7,379

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

General Science. The President proposes to transfer the Department of Energy's General Science and Research Activities program to the Department of Commerce's Energy Research and Technology Administration. In so doing, the Administration's latest budget estimates imply that 1982 spending will accelerate nearly 10 percent from previously estimated levels. The CBO reestimates assume that the rate of spending will not change with the proposed reorganization.

National Science Foundation. The National Science Foundation's Research and Related Activities account is the principal source of grants to

year 1982, the latest Administration budget estimates indicate unusually high outlays in this account from prior-year contractual obligations. Although CBO anticipates an acceleration of spending out of prior-year obligations, it assumes a somewhat slower rate than the Administration's.

NASA Space Flight. This program incorporates the development, production, and operation of the Space Shuttle; the procurement and operation of the Spacelab for use with the Shuttle; and the development and procurement of expendable vehicles to launch satellites and planetary exploration spacecraft. CBO estimates that 1982 outlays for this program will be approximately \$55 million greater than the Administration's expectations. CBO sees greater outlays associated with maintaining the delivery schedule of the second orbiter "Challenger" and faster spending associated with shuttle operations. This program is evolving from its development, test, and production stage into its operations phase. (The two flights planned for Columbia during fiscal year 1982 are scheduled to be the final flights in the shuttle's developmental stage.) As the program becomes operational, CBO estimates that spending will accelerate. The flow of actual outlays to date supports this.

NASA Space Science. This program includes funds for the physics and astronomy, planetary exploration, life sciences, and space and terrestrial applications programs of the National Aeronautics and Space Administration. Among the specific development projects funded are the space telescope, the gamma ray observatory, the Spacelab payload, Explorer, and the Galileo mission to Jupiter. CBO estimates outlays for this account to be \$39 million more than the Administration's projections. This difference stems from CBO's expectations of greater costs for the development of these projects and from the Administration's use of spending rates inconsistent with the previous fiscal year's experience and with actual outlays to date.

FUNCTION 270: ENERGY

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	6,413	4,215	3,807	3,756
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
Fossil energy	131	230	41	-17
Energy supply	158	9	-3	-103
Uranium enrichment	46	45	20	-20
Naval Petroleum Reserves	-97	-138	-175	-146
Energy production	-80	-68	-32	-4
Departmental administration	---	72	55	-1
Other	1	---	---	---
Total Reestimates	159	150	-94	-291
President's Budget Reestimated	6,572	4,364	3,713	3,465

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

Fossil Energy. CBO estimates that outlays for fossil energy programs will be \$131 million higher than estimated by the Administration in 1982 and \$230 million higher in 1983. CBO's analysis indicates that more than \$600 million in obligated balances and \$195 million in unobligated balances were available to be spent at the beginning of fiscal year 1982. An additional \$417 million was appropriated in 1982 for fossil energy programs. CBO's estimate assumes that spending from these balances and the 1982 appropriation will occur at rates consistent with historical spending patterns. The

Administration's estimate assumes spending from prior-year obligations at a rate much slower than experienced by the program in recent years. The Administration's estimates also apparently assume a deferral of \$45 million that is not specified in the February budget and has not yet been transmitted to the Congress. CBO's reestimate does not reflect the possible deferral. CBO's analysis reveals that without future deferrals or rescissions the estimated outlays projected by the Administration for these programs will be difficult to achieve.

Energy Supply. CBO believes that the Administration underestimated outlays for solar, nuclear, and other nonfossil energy programs by \$158 million in 1982. The CBO reestimate assumes that a substantial portion of the approximately \$1.6 billion in obligated balances incurred before 1982 will be disbursed during 1982. This assumption is based on information provided by the Department of Energy (DOE) concerning spending patterns for the nonconstruction energy supply programs indicating that more than 90 percent of all obligations will be disbursed within two years of obligation. Funds for construction programs are projected to spend over three years, with the largest proportion of spending occurring in the second year. The Administration's estimates of outlays reflect a rate of spending from prior obligations slower than the program has experienced in the past.

Uranium Enrichment. CBO's estimate of outlays for uranium enrichment exceeds the Administration's estimate by approximately \$45 million in both 1982 and 1983. The difference results from CBO's lower estimate of uranium enrichment revenues, based on information provided by the Administration and an analysis of previous revenue projections. The Administration has consistently overestimated these revenues. Its July and September estimates for revenue from commercial sales totaled nearly \$2.2 billion for 1983. In July, CBO had projected revenues of approximately \$2.1 billion for 1983. The Administration now projects revenues from commercial sales of approximately \$2.1 billion, near the CBO estimate.

Naval Petroleum Reserves (NPR). Receipts from the sale of petroleum products are estimated by CBO to be \$97 million higher in 1982 than estimated by the Administration. CBO's estimate is based on an oil price for NPR-1 oil of approximately \$30.70 per barrel in 1982 and a windfall profits tax payment of approximately \$520 million. CBO believes that the Administration overestimated the payment for the windfall profits tax and thus underestimated NPR receipts. Using the Administration's estimates for total oil revenue from the reserves, and assuming a base price of \$12.81 per barrel of oil, CBO estimates the windfall profits tax payment at approximately 35 percent of the revenue from oil sales, or \$550 million in 1982. This is almost \$90 million less than estimated by the Administration. Therefore, net receipts from the NPR would increase by \$90 million in 1982.

Energy Production. Based on information provided by the Administration and an analysis of program activity at the Naval Petroleum Reserves, CBO estimates that outlays in 1982 will be \$80 million less than projected by the Administration. The Administration projects faster spending of new obligations in 1982 than in the last several years and thus projects outlays of \$294 million, twice the level experienced in 1981. CBO projects slower spending because of the proportion of construction activity under this account. Based on information provided by the Department of Energy concerning construction activity, CBO assumes that outlays will reflect the time needed to complete a construction activity once it has been commissioned. This results in a large proportion of outlays occurring after the year in which construction begins. Outlays would reach the levels projected by the Administration only if construction activity were completed at a rate faster than that which has occurred at the reserves in the past.

Departmental Administration. The Administration's projected outlays are below the level that would be expected to result from the amounts appropriated and from the prior balances in this account. The level of unspent obligated balances that would be maintained throughout fiscal years 1983-1987 is inconsistent with both past trends and the mix of activities in the account. CBO's estimate assumes that the \$198 million in prior balances at the start of fiscal year 1982 will be spent by 1984, and that program spending will follow historical patterns. As a result, CBO's outlay estimate is \$72 million higher than the President's in 1983 and \$55 million higher in 1984.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	12,626	9,911	8,359	7,732
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
EPA construction grants	-20	350	480	150
Hazardous substance response trust fund	-55	-89	-90	-84
Offsetting receipts, primarily from onshore mineral leasing and sale of timber	322	324	400	574
Other	-75	19	78	18
Total Reestimates	172	604	868	658
President's Budget Reestimated	12,799	10,515	9,227	8,390

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

EPA Construction Grants. CBO has reestimated upward outlays for Environmental Protection Agency (EPA) construction grants in 1983 to 1985, because the Administration estimates do not adequately reflect the likely spending in those years from previous years' obligations. The construction grants program provides funds to states and municipalities to plan, design, and construct wastewater treatment facilities. Once obligated, grant awards for construction are spent over several years, frequently taking seven or more years to be entirely expended. Projects usually have small

outlays in the first year after funds have been obligated, with the bulk of outlays falling between the second and fifth years after obligation. Consequently, large changes in obligational authority for the program do not result in immediate changes in outlays. The President's budget, however, projects a sharp decline in outlays only one year after a corresponding drop in obligations.

The Administration estimates that only \$3.4 billion will be obligated in 1982, and projects that obligations will drop further to \$2.4 billion in 1983 and to \$2.0 billion in 1984 and 1985. The February budget estimates also show a rapid decline in outlays from the estimated \$4 billion level in 1982, with outlays dropping to \$2.8 billion by 1984. Based on past experience, and in view of the large size of obligated balances from previous years' appropriations, a more gradual decline in outlays is likely, which is reflected in CBO's reestimate.

Hazardous Substance Response Trust Fund. The CBO outlay estimates for the hazardous substance response trust fund, commonly known as the "Superfund," are substantially lower than the Administration's for 1982 through 1985. CBO believes that the Administration has assumed unrealistically high obligation and outlay rates for this new and controversial program. Money in the Superfund is to be spent primarily for short-term response to uncontrolled releases of hazardous substances posing an immediate health or safety threat and for longer-term cleanup action at hazardous waste sites (such as Love Canal).

Most new programs start slowly; yet administration budgets typically overestimate how quickly funds will be spent. For this new program, \$75 million was provided in 1981 budget authority, of which \$40 million was obligated and only \$8 million was spent. Experience to date suggests that the very process of obligating funds--determining which sites warrant remedial action--will be lengthy. There are over 10,000 potential sites, and differences are sure to arise regarding which most merit federal remedial action. Once sites have been chosen, site evaluation and project design and construction will likely take three or more years to complete. Thus, outlays will occur gradually over a few years once funds are obligated. The Administration has assumed that obligations in 1982 and 1983 will equal 1982 and 1983 budget authority levels and that 95 percent of obligations will be spent within two years of obligation. The CBO reestimate assumes slower rates of obligations and outlays that are more in line with new programs.

Offsetting Receipts. The offsetting receipts in this function are derived mainly from the sale of timber on public lands and onshore mineral leasing, and appear in the budget primarily in subfunctions 300 and 302.

Historically, the Administration's estimate for function 300 offsetting receipts has been overly optimistic. In fact, in three of the past four years, the President's original budget estimate has been higher than the actual amount received and has been modified upward in January of the following year. The overestimates ranged from 3 to 7 percent above the actuals in the original budget requests for those years, and grew to between 5 and 22 percent over the actuals during the mid-year review. In fiscal year 1981, CBO's estimating methods for these receipts resulted in a January estimate that was about \$160 million (or 7 percent) closer to actual receipts than the Administration's.

In fiscal year 1982, the Administration is projecting that function 300 receipts will grow by 49 percent, or \$1,109 million, over the 1981 actual receipts of \$2,283 million. If this increase occurs, it would be the largest increase ever, both in magnitude and as a percentage of the previous year's actual total. Of this increase, approximately \$400 million is expected from the sale of timber by the Forest Service (FS), and approximately \$700 million from increased receipts by the Department of the Interior (DOI), primarily from onshore mineral leasing. CBO's estimate of FS timber receipts in fiscal year 1982 is \$127 million lower than the Administration's because of lower timber price assumptions. In addition, the CBO estimate for DOI receipts is approximately \$195 million below the agency's. A large portion of this reestimate can be explained by actual receipts in January from offerings in the National Petroleum Reserve--Alaska (NPRA). Receipts realized were approximately \$100 million less than anticipated by DOI. The remainder of CBO's reestimate for DOI receipts stems from lower timber and oil and gas price assumptions.

The estimate in the President's budget for fiscal year 1983 represents an additional increase of \$664 million, or 20 percent, over the 1982 estimate for these receipts. Virtually all of the increase (92 percent) is expected to result from timber receipts; the volume of timber cut and the price received for this timber are anticipated to increase concurrently by 25 percent. Information from the agency indicates that these increases are expected because of pending expiration of existing contracts and increased activity in new housing construction. CBO also anticipates that these factors will produce large increases in timber harvest, but projects more moderate price increases consistent with historical timber price patterns. Thus, in fiscal year 1983, the CBO estimate for FS timber receipts is approximately \$324 million below the Administration's.

The President's five-year budget projections include increases in function 300 receipts of \$665 million in fiscal year 1984. This large increase is expected partly as a result of increases in price and volume of timber cut. In addition, DOI receipts in that year are expected to grow significantly

because of large increases in onshore mineral receipts from increased coal production and renegotiation of coal royalty contracts. CBO expects that increases in receipts as a result of these factors will be more moderate, and continues to project lower timber prices in that year. Thus, CBO's estimate of receipts in 1984 is \$400 million lower than the Administration's.

For 1985, the Administration projects an increase of \$574 million as a result of continued renegotiation of coal leases, continued growth in the volume of coal to be mined, and large natural gas price increases after the scheduled January 1, 1985, price decontrol. Although CBO anticipates that increased receipts will result from these factors, CBO's estimate remains \$575 million below the Administration's, largely because of a slower anticipated rate of response to the changes mentioned.

These technical reestimates of receipts will cause reestimates in function 850--where payments to states resulting from timber and mineral leasing receipts appear in the budget.

Other. CBO also has a number of smaller technical reestimates for programs in this function. The Administration has estimated 1982 outlays for the urban park and recreation fund at \$64 million. This program was initiated in 1979 to provide grants to cities for improving deteriorated park and recreation facilities. Funded projects involve construction, and larger ones are likely to take three to four years to complete. Obligations for grants in 1979 through 1981 were nil, \$57 million, and \$66 million, respectively. Total outlays in those years were \$200,000, \$4 million, and \$18 million. Based on obligations to date and the length of time needed to complete funded projects, CBO has estimated a more gradual rate of spending. As a result, CBO estimates outlays for this program to be \$25 million lower than the Administration estimates in 1982, and \$20 million higher in 1984.

CBO has also reestimated downward by \$39 million the Administration's 1982 outlay estimate for EPA's salaries and expenses account because the Administration has assumed a 95 percent first-year outlay rate. In recent years, this rate has not exceeded 90 percent.

FUNCTION 350: AGRICULTURE

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	8,633	4,494	5,090	4,586
Preliminary CBO Reestimates				
Different economic assumptions	---	---	---	---
Technical reestimates				
Farm price supports	5,052	5,563	2,681	2,422
Agricultural credit	66	177	36	122
Other	-45	---	---	---
Total Reestimates	<u>5,072</u>	<u>5,740</u>	<u>2,717</u>	<u>2,544</u>
President's Budget Reestimated	13,705	10,234	7,807	7,130

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

This function has no reestimates resulting from different economic assumptions.

Technical Reestimates

Farm Price Supports. CBO estimates that Commodity Credit Corporation (CCC) outlays for farm price supports and related programs will be \$11.4 billion in 1982 and \$7.4 billion in 1983. These amounts exceed the Administration's February budget estimates by \$5.1 billion and \$5.6 billion, respectively. CBO's estimates are based on the most recent production assessment and reflect the deteriorating outlook for exports resulting from political tensions with the Soviet Union and an embargo on exports to Poland. The recent announcements of 1982 crop planting restrictions and increased support levels have also been incorporated.

As shown in the following table, 60 percent of 1982 outlays are expected to be for wheat, feed grain, and cotton programs; in 1983 these

programs account for 53 percent of estimated CCC outlays. Record harvests and low farm prices result in direct deficiency payments to be made to producers and increase the demand for commodity loans. Of these commodity loans, \$6.3 billion in 1982 and \$1.4 billion in 1983 are loans and storage payments for wheat and feed grain placed in the farmer-owned reserve where they are likely to stay until corn prices rise more than 27 percent and wheat prices 25 percent. Storage payments must be continued on grain in the reserve until prices increase to the release level; these payments are estimated to be \$600 million annually.

CBO Estimates of Major CCC Program Expenditures (In millions of dollars)

	1982	1983	1984	1985
Wheat	1,817	1,231	491	450
Feed grain	5,223	2,070	847	418
Cotton	950	629	214	153
Dairy	1,907	1,972	1,814	1,695
Interest	1,370	1,300	1,200	1,100
Other	<u>84</u>	<u>180</u>	<u>345</u>	<u>302</u>
Total	11,351	7,382	4,911	4,118

Dairy outlays reflect continuing growth in production in spite of reduced increases in dairy price supports. Net government removals of dairy products remain about 10 percent of production in 1982 and 1983. Because the expenditures for dairy supports are outright purchases, no offsetting receipts are expected.

Net interest outlays are those interest payments owed the Treasury from the use of permanent borrowing authority, now at 14 percent, to fund commodity support programs less interest paid by farmers on commodity loans and storage facility loans and by users of export credits. Interest on direct payments to producers, cumulative dairy purchases, and administration and operating expenses comprise part of the net interest estimate. In addition are interest owed on grain reserve loans, which farmers are not required to pay after the first year, and interest paid on loans of com-

modities such as tobacco, which were made in previous years at rates well below current borrowing costs.

The large increases in CBO's estimate of CCC outlays above the President's February budget arise because the Administration had to prepare its budget estimates during the conference on the 1981 farm bill. Not only do these estimates not incorporate the most recent production estimates, they predate the imposition of martial law in Poland and the subsequent embargo on exports. Next to the Soviet Union, Poland is the largest Eastern Bloc customer for U.S. grain exports. Under the embargo, 1982 feed grain export estimates have declined 325 million bushels. More than \$800 million in reserve loans will be spent if the entire decrease in exports is placed in the farmer-owned reserve. In addition, the Secretary of Agriculture announced in January a program for the 1982 crops that requires a 15 percent set-aside of wheat, cotton, and rice acreage and a 10 percent set-aside of feed grain acreage as a condition for receiving increased price supports. For wheat, the loan rate is increased 35 cents per bushel and the reserve loan rate 50 cents per bushel; for corn, the rate is up 15 cents to \$2.55 per bushel and the reserve loan rate up 35 cents to \$2.90 per bushel. The set-aside requirement will reduce eligibility for price supports in 1983 below the unrestricted program available in 1982; however, even with modest participation, 395 million bushels are projected to enter the reserve and net commodity lending is estimated to be \$2.1 billion, while deficiency payments and reserve storage costs are estimated to be \$1.4 billion.

The greatest difference between the CBO and Administration estimates is in the estimates of crop and dairy production underlying program costs. The President's budget estimates of CCC outlays are based upon 1981 crop conditions estimated in the August 1981 crop reports. As a result, they do not reflect the considerable revisions that have been made in crop estimates as reported in the February 1982 U.S. Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates. These changes and their impact on farm price supports are discussed in the following sections.

Commodity Loan Programs

The most significant change in relation to outlay estimates is the one-billion-bushel increase in the farmer-owned corn grain reserve. In August, the Department of Agriculture forecast an increase in the reserve to 250 million bushels, and the Administration's total CCC outlay estimate is consistent with that forecast. By February 3, 1982, however, 958 million bushels had actually been placed in the reserve and the department increased its estimates to 1,250 million bushels for the year, a fourfold increase (see the following table). For each bushel a farmer places in the

reserve, he receives a \$2.55 loan plus a \$0.265 storage payment. Based on the USDA estimate of 1,250 million bushels entering the reserve, and on the assumption that each farmer receives \$2.82 for each bushel placed in the reserve, corn loan outlays for 1982 will be at least \$3.5 billion dollars. These corn loans cannot be redeemed by farmers unless the farm price of corn averages above \$3.15 per bushel. This is \$0.67 per bushel higher than the season average farm price forecast by the Department of Agriculture for fiscal year 1982. Nor is it likely that much of this corn will be redeemed by farmers during fiscal year 1983 either.

Supply and Demand Estimates for Corn

	August 1981	February 1982	Percent Change
Area Planted (millions of acres)	84.3	84.2	0
Area Harvested (millions of acres)	74.1	74.6	+1
Yield per Acre (bushels)	104.3	109.9	+5
Production (millions of bushels)	7,735	8,201	+6
Domestic use	5,025	5,035	0
Exports	2,450	2,175	-11
Total Use	7,475	7,210	-4
Farmer-Owned Reserve Stocks	250	1,250	+500
CCC Inventory Stock	225	315	+140
Tree Stock	802	461	-43
Total Ending Stock	1,277	2,026	+59
Estimated Average Farm Price (dollars per bushel)	2.95	2.48	-16

SOURCE: World Agricultural Supply and Demand Estimates Approved by the U.S. Department of Agriculture World Agricultural Outlook Board.

As of February 3, 1982, in addition to the 958 million bushels farmers had placed in the corn farmer-owned reserve, 713 million bushels of corn had been pledged for nine-month nonrecourse loans. For each bushel put under loan, a farmer receives \$2.40. During January, the CCC was charging interest of 12.25 percent on these nine-month nonrecourse loans. Therefore,

for a farmer to redeem his loan at the end of the nine-month loan period, he must repay the \$2.40 plus nine months' interest at 12.25 percent, which means a total redemption cost of \$2.62 per bushel. The average price received by farmers for corn during January was \$2.40 per bushel; therefore, unless a farmer needs the corn to feed livestock or to meet other sales commitments, he has very little economic incentive to redeem these corn loans. As a result, most of the 713 million bushels of corn under nine-month loans are likely to move into the farmer-owned reserve. If 75 percent of those bushels move into the reserve, which lends farmers \$2.81 per bushel as opposed to the current market price of \$2.40 per bushel, the farmer-owned reserve could reach 1,490 million bushels while corn loans outstanding would total \$4.2 billion. Farmers are only required to pay the interest cost on farmer-owned reserve loans for the first year of the loan. Subsequently, the CCC continues to pay \$0.265 per bushel storage cost and the interest for the second and third years of the loan. In 1983 and 1984, the storage cost per year would be \$395 million and interest could cost \$588 million per year, if the reserve was 1,490 million bushels.

Similar changes in outlook affect the other feed grains. For example, the August crop estimate did not project that sorghum would enter the farmer-owned grain reserve. As of February 3, 1982, farmers had placed 191 million bushels in the reserve and 59 million more bushels were pledged for nine-month nonrecourse loans. With the current estimated farmer-owned sorghum reserve at 225 million (see the following table) and a potential of 300 million bushels, the outlay estimates for the 1982 farmer-owned sorghum grain reserve range between \$600 million and \$800 million.

Supply and Demand Estimates for Sorghum

	August 1981	February 1982	Percent Change
Yield per Acre (bushels)	61.1	64.1	+5
Production (millions of bushels)	833	880	+6
Domestic use	461	411	-11
Exports	325	275	-15
Total Use	786	686	-13
Farmer-Owned Reserve Stock	0	225	
Total Ending Stock	91	303	+333
Estimated Average Farm Price (dollars per bushel)	2.70	2.30	-1

SOURCE: World Agricultural Supply and Demand Estimates Approved by the U.S. Department of Agriculture World Agricultural Outlook Board.

Although the wheat crop estimates have not been revised substantially between August and February, an increase of 11 percent in the farmer-owned wheat reserve affects estimated outlays. Farmers receive \$3.50 per bushel for each bushel placed into the reserve plus an additional \$0.265 per bushel for storage. As a result of an additional 50 million bushels being placed into the reserve, estimated outlays increase by \$188 million.

Supply and Demand Estimates for Wheat

	August 1981	February 1982	Percent Change
Area Planted (millions of acres)	88.8	88.9	---
Area Harvested (millions of acres)	80.7	80.9	---
Yield per Acre (bushels)	34.1	34.5	+1
Production (millions of bushels)	2,750	2,793	+2
Domestic use	882	872	-1
Exports	1,825	1,850	+1
Total Use	2,707	2,722	+1
Farmer-Owned Reserve Stocks	475	525	+11
CCC Inventory Stock	185	185	---
Free Stock	376	352	-6
Total Ending Stock	1,036	1,062	+3
Estimated Average Farm Price (dollars per bushel)	3.75	3.70	-1

SOURCE: World Agricultural Supply and Demand Estimates Approved by the U.S. Department of Agriculture World Agricultural Outlook Board.

The most recent information relating to wheat outlays is the USDA plantings report released on December 22, 1981, on the 1982 winter wheat crop. According to that report, farmers seeded 66.255 million acres for winter wheat last fall to be harvested this spring. This is the largest acreage seeded to winter wheat since records were begun in 1909. Winter wheat production for fiscal year 1983, based on the condition of the crop as of January 1, 1982, is forecast at a record high of 2.13 billion bushels. This